

AUDITOR'S REPORT OF THE AUDITOR-GENERAL TO THE COUNCIL ON HIBISCUS COAST MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Hibiscus Coast Municipality, which comprise the statement of financial position as at 30 June 2010, the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory information, as set out on pages ... to

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and in the manner required by the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2009 (Act No. 12 of 2009) (DoRA). This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of South Africa, 1996 (Act No. 108 of 1996), section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. ~~Paragraph 11 et seq. of GRAP 1: Presentation of Financial Statements requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is~~

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~~not effective for this financial year, I have determined that my audit of any disclosures made by the Hibiscus Coast Municipality in this respect will be limited to reporting on non-compliance with this disclosure requirement.~~

7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

8. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Hibiscus Coast Municipality as at 30 June 2010, and its financial performance and its cash flows for the year then ended in accordance with SA Standards of GRAP and in the manner required by the MFMA and DoRA.

Emphasis of matters

9. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Going concern

10. Although the municipality has prepared financial statements on a going concern basis, there are indicators reflected in note 53 to its financial statements that its financial sustainability is under threat as a result of insufficient cash to cover current obligations.

Material losses

11. As disclosed in note 42 to the financial statements, material losses to the amount of R1,250 million were incurred as a result of illegal connections of electricity and operational usage.

Additional matter

I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited supplementary schedules

12. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

13. As required by the PAA and in terms of *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*, I include below my findings on the report on predetermined objectives, compliance with the following key laws and regulations: MFMA, Local Government: Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA), Local Government: Municipal Planning and Performance Management Regulations, 2001, and financial management (internal control).

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Predetermined objectives

14. Material findings on the report on predetermined objectives, as set out on pages XX to XX, are reported below:

Non-compliance with regulatory and reporting requirements

Local Government: Municipal Systems Act

Internal auditing of performance measurements

15. The internal auditors did audit the performance measurement on a continuous basis however, these reports were not submitted to the municipal manager and the performance audit committee as required by regulation 14(1) (c) (ii) of the Local Government: Municipal Planning and Performance Management Regulations, 2001, as well as section 45 of MSA.

Compliance with laws and regulations

Local Government: Municipal Finance Management Act

The internal audit unit was not properly functioning

16. The internal audit unit did not report to the audit committee on the implementation of the internal audit plan of the municipality and matters relating to the internal audit as required by section 165(2)(b)(i) of the MFMA.

The financial statements were not prepared in accordance with applicable legislation.

17. The municipality made certain material adjustments to the annual financial statements submitted for audit on 31 August 2010. In other instances, immaterial errors and omissions identified during the audit process were not corrected by the municipality. The material adjustments constitute non-compliance with section 122 (1) of the MFMA.

INTERNAL CONTROL

I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives as well as compliance with key laws and regulations (MFMA, DoRA and MSA), but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported are limited to the significant deficiencies that gave rise to the findings on the report on predetermined objectives.

Leadership

18. The accounting officer does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

Financial and performance management

19. Quality, reliable financial statements, were not prepared by the municipality resulting in the financial statements been subjected to material amendments during the audit.

Governance

20. Adequate monitoring and reviews were not performed to ensure that the municipality identifies deficiencies relating to the achievement of the internal control environment in respect of the internal audit.


Pietermaritzburg

30 November 2010



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

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